



United States Department of Agriculture
Office of Inspector General
Washington, D.C. 20250



DATE: **NOV 15** 2011

AUDIT
NUMBER: 50401-0002-11

TO: Jon M. Holladay
Acting Chief Financial Officer
Office of the Chief Financial Officer

ATTN: Kathy Donaldson
Audit Liaison Officer

SUBJECT: Report on the Department of Agriculture's Special-Purpose Financial Statements
for Fiscal Years 2011 and 2010

We have audited the accompanying reclassified balance sheets as of September 30, 2011 and 2010, and the related reclassified statements of net cost and changes in net position for the years then ended (hereinafter referred to as the special-purpose financial statements), contained in the special-purpose closing package of the Department of Agriculture (USDA). These special-purpose financial statements are the responsibility of USDA's management. Our responsibility is to express an opinion on these special-purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in U.S. *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Office of Management and Budget (OMB) Bulletin 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the special-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the special-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall special-purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying special-purpose financial statements and accompanying notes contained in the special-purpose closing package have been prepared for the purpose of complying with the requirements of the *U.S. Department of the Treasury's Financial Manual* (TFM) Volume I, Part 2, Chapter 4700 solely for the purpose of providing financial information to the U.S. Department of the Treasury (Treasury) and U.S. Government Accountability Office (GAO) to use in preparing and auditing the Financial Report of the U.S. Government, and are not intended to be a complete presentation of USDA's financial statements.

In our opinion, the special-purpose financial statements and accompanying notes referred to above present fairly, in all material respects, the financial position of USDA as of September 30, 2011 and 2010, and its net costs and changes in net position for the years then ended, in conformity with accounting principles generally accepted in the United States of America and the presentation pursuant to the requirements of the TFM Chapter 4700.

As discussed in Note 1, the Department disclosed a subsequent approval of a legal settlement that occurred on October 27, 2011. USDA also made certain reclassifications to prior year amounts to conform to the current year presentation for two of its reporting components. In fiscal year 2011, the Risk Management Agency reclassified the Federal Crop Insurance Corporation from earmarked funds to other funds, consistent with the change in accounting principle made in fiscal year 2010. The balance sheet, statement of changes in net position, and related earmarked funds note (Note 22) reflect this change. Additionally, the Commodity Credit Corporation reclassified other financing sources on the statement of changes in net position to comply with the Treasury General Fund Receipt Account Guide, *Scenario 6 - Collection of Downward Reestimate of Subsidy Expense*.

The information included in the "Other Data" is presented for the purpose of additional analysis and is not a required part of the special-purpose financial statements, but is supplementary information required by the TFM Chapter 4700. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methodology and presentation of this information. We also reviewed such information for consistency with the related information presented in USDA's financial statements. However, we did not audit this information, and accordingly, we express no opinion on it.

In accordance with U.S. *Government Auditing Standards* and OMB Bulletin 07-04, as amended, we have also issued reports dated November 15, 2011, on our consideration of USDA's internal control over financial reporting and its compliance with certain provisions of laws and regulations. Those reports are an integral part of an audit of general-purpose financial statement reporting performed in accordance with U.S. *Government Auditing Standards* and OMB Bulletin 07-04, as amended, and should be read in conjunction with this report in considering the results of our audit.

In planning and performing our audit of the special-purpose financial statements, we also considered USDA's internal control over the financial reporting process for the special-purpose financial statements and compliance with the TFM Chapter 4700. Management is responsible for establishing and maintaining internal control over financial reporting, including "Other Data," and for complying with laws and regulations, including compliance with the TFM Chapter 4700 requirements.

Our consideration of internal control over the financial reporting process for the special-purpose financial statements would not necessarily disclose all matters in the internal control over the financial reporting process that might be significant deficiencies or material weaknesses. Significant deficiencies are deficiencies, or a combination of deficiencies, in internal control that are less severe than a material weakness, yet important enough to merit attention by those charged with governance. Material weaknesses are deficiencies, or a combination of

deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the special-purpose financial statements being audited will not be prevented, or detected and corrected on a timely basis.

We found no material weaknesses in internal control over the financial reporting process for the special-purpose financial statements, and our tests of compliance with the TFM Chapter 4700 requirements disclosed no instances of noncompliance that are required to be reported under U.S. *Government Auditing Standards* and OMB Bulletin 07-04, as amended. However, providing opinions on internal control over the financial reporting process for the special-purpose financial statements or on compliance with the TFM Chapter 4700 requirements were not objectives of our audit of the special-purpose financial statements and, accordingly, we do not express such opinions.

This report is intended solely for the information and use of USDA, Treasury, OMB, and GAO in connection with the preparation and audit of the Financial Report of the U.S. Government, and is not intended to be and should not be used by anyone other than these specified parties.



Gil H. Harden
Assistant Inspector General
for Audit

November 15, 2011